

# Audit

# Report



BULK FUEL STORAGE AND DELIVERY SYSTEMS  
INFRASTRUCTURE MILITARY CONSTRUCTION  
REQUIREMENTS FOR JAPAN

Report No. D-2001-003

October 13, 2000

Office of the Inspector General  
Department of Defense

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AAI01-01-0161

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### **Acronyms**

DLA	Defense Logistics Agency
JFIP	Japanese Facilities Improvement Program
MILCON	Military Construction
MR&E	Maintenance, Repair, Environmental
MCAS	Marine Corps Air Station



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-4304

October 13, 2000

MEMORANDUM FOR COMMANDER IN CHIEF, U.S. PACIFIC COMMAND  
ASSISTANT SECRETARY OF THE AIR FORCE  
(FINANCIAL MANAGEMENT AND COMPTROLLER)  
COMMANDER, UNITED STATES FORCES JAPAN  
NAVAL INSPECTOR GENERAL  
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Audit Report on Bulk Fuel Storage and Delivery Systems Infrastructure  
Military Construction Requirements for Japan (Report No. D-2001-003)

We are providing this report for information and use. The report is one in a series about infrastructure requirements for bulk fuel storage and delivery systems. We considered comments from Commander in Chief, U.S. Pacific Command in preparing the final report.

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Gary R. Padgett at (703) 604-9632 (DSN 664-9632) (gpadgett@dodig.osd.mil) or Mr. Wayne K. Million at (703) 604-9312 (DSN 664-9312) (wmillion@dodig.osd.mil). See Appendix B for the report distribution. The audit team members are listed inside the back cover.

A handwritten signature in black ink, reading "Robert J. Lieberman", is positioned above the printed name.

Robert J. Lieberman  
Assistant Inspector General  
for Auditing

## Office of the Inspector General, DoD

Report No. D-2001-003

Project No. D1999CG-0088.004

October 13, 2000

### Bulk Fuel Storage and Delivery Systems Infrastructure Military Construction Requirements for Japan

#### Executive Summary

**Introduction.** This report is one in a series that addresses the accuracy and reliability of maintenance, repair, and environmental and construction requirements for bulk fuel storage and delivery systems infrastructure. The Defense Logistics Agency, Defense Energy Support Center provides fuel to DoD customers and is responsible for budgeting and funding military construction and maintenance and repair projects, including environmental projects, at all DoD fuel terminals worldwide.

**Objectives.** Our overall objective was to evaluate the accuracy and reliability of DoD documentation regarding maintenance, repair, and environmental and construction requirements for bulk fuel storage and delivery systems infrastructure. Specifically, this audit evaluated requirements for bulk fuel storage facilities at three locations in Japan. We also evaluated the management control program as it relates to the bulk fuel storage military construction requirements validation process.

**Results.** The requirement for four proposed military construction projects for the construction of seven bulk fuel storage tanks in Japan were valid, but the Service Components and the United States Forces Japan could not demonstrate that they had evaluated or pursued the potential for using the host nation relocation program. Those projects are no longer viable candidates for host nation relocation funding because of the lengthy approval process. The supporting economic analysis for any future military construction proposals need to document the full consideration and pursuit of funding alternatives, especially host nation support. See Appendix A for details on the management control program.

**Summary of Recommendations.** We recommend that the Commander in Chief, U.S. Pacific Command; the Commander, United States Forces Japan; and the applicable Service Components establish policy to require that the planners of future military construction projects in Japan consider all funding options and appropriately document the process in the project files.

**Management Comments.** The Commander in Chief, U.S. Pacific Command provided comments and stated that he concurs with the finding. The U.S. Pacific Command provided additional comments indicating that their instruction is being revised to require formal documentation of required attempts to obtain host-nation support. A discussion of the management comments is in the Finding section of the report, and the complete text of the formal reply is in the Management Comments section.

**Audit Response.** We consider the management position as fully responsive and no additional comments are required.

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## Introduction

This report is one in a series being issued by the Inspector General, DoD, addressing DoD maintenance, repair, and environmental (MR&E) and military construction (MILCON) requirements for bulk fuel storage and delivery systems infrastructure (storage tanks, pipelines, dispensing facilities, hydrants, etc.). The Defense Logistics Agency (DLA), Defense Energy Support Center, is responsible for budgeting and funding MILCON and MR&E projects for DoD bulk fuel terminals worldwide.

## Background

In 1991, Program Budget Decision 735 authorized the transfer of MILCON funding authority to DLA for fuel-related bulk fuel infrastructure on military installations. Actual transfer of the funding responsibilities, however, has been managed in phases. Military installations are still responsible for funding retail fuel facilities for ground products (vehicles, motor pools, etc.). The period from 1993 through 1996 was characterized by very low fuel-related MILCON expenditures. During this period when the Services would have historically expended an average of \$66 million per year, DLA averaged only \$17 million. Low levels of funding over an extended period precipitated infrastructure deterioration to the point where environmental issues became a concern. Additionally, the United States has changed from a forward-deployed force to one based largely in the continental United States. Therefore, an enhanced en route refueling infrastructure to support deployment of U.S. Forces worldwide is needed to meet timeline requirements of a two major theatre war strategy. Consequently, there is a growing demand for MR&E and MILCON projects supporting fuel infrastructure.

In 1997, the Office of the Deputy Under Secretary of Defense (Logistics) completed a study on DoD fuels MILCON funding. The study identified 114 MILCON projects totaling \$1.5 billion in fuel-related MILCON requirements to meet environmental, operational, and strategic planning objectives for the proposed Future Years Defense Program (FYs 1999 through 2003). During FY 1998 budget considerations, the transfer of MILCON responsibility to DLA created a major funding issue since the Defense budget did not provide increased funding for DLA. For FY 2000, DLA funded and approved \$101.2 million for 5 projects. For the FY 2001 President's Budget to Congress, DLA programmed 14 fuel projects with an estimated cost of \$168 million.

The Defense Energy Support Center is responsible for DoD fuel inventory management, including fuel procurement and sales, and environmental oversight. Fuel-related infrastructure requirements may be funded by DLA from two different funding sources. MR&E projects are funded through the

Defense Working Capital Fund – a revolving fund that is continually replenished by a surcharge added by DLA to the sale price of fuel. Renovation and major

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construction projects are funded from the DLA allocation of MILCON appropriations.

## **Objectives**

Our overall objective was to evaluate the accuracy and reliability of DoD documentation for MR&E and MILCON requirements for bulk fuel storage and delivery systems infrastructure. Specifically, for this report, we addressed requirements for bulk fuel storage facilities at three locations in Japan that included four proposed MILCON projects for the construction of seven bulk fuel storage tanks. We also reviewed the management control program as it relates to the overall objective. See Appendix A for a discussion of the audit scope and methodology and a discussion of the management control program.

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## **Bulk Fuel Storage Requirements**

The requirement for four proposed MILCON projects for seven bulk fuel storage tanks in Japan were valid. However, the Service Components proposing the projects and the United States Forces Japan could not demonstrate that all funding alternatives to satisfy infrastructure requirements in Japan had been considered, because there was no explicit requirement for them to do so. Therefore, DoD lacked assurance that those requirements were satisfied in the most economical manner.

### **Policy Guidance**

DoD Directive 4140.25-M, volume I, chapter 1, "DoD Bulk Petroleum Management Policy," states that DoD bulk petroleum programs shall support the DoD peacetime and wartime missions and permit successful deployment and employment of Forces at minimum cost. The guidance also applies the following objectives to bulk petroleum integrated material management.

- Purchase, store, and distribute bulk petroleum products in an economical and efficient manner.
- Maintain essential and properly positioned inventories and storage facilities in support of peacetime and wartime requirements.
- Provide efficient financial management and effective use of resources for the DoD bulk petroleum logistic system and eliminate duplication of effort.

DoD Directive 4140.25-M, volume II, chapter 8, "Management of Storage and Distribution Facilities," April 20, 1999, states that planning for wartime petroleum requirements shall rely on host-nation support when feasible. The directive further states that for overseas terminals, it is mandatory that MILCON projects be supported by a statement of the proponent's attempt to secure host nation support for the project, clearly demonstrating that such support is unavailable, impractical, unfeasible, or uneconomical before using MILCON funds.

### **United States Forces Japan**

The mission of the United States Forces Japan is to support the U.S. forward presence, promote regional stability, and ensure bilateral defense cooperation with the government of Japan. The petroleum management responsibilities of the United States Forces Japan include the geographic management of, as well as the coordination of the receipt, storage, and distribution of, petroleum products. The United States Forces Japan also reviews, prioritizes, and coordinates the local geographic requirements for MILCON and MR&E related to the petroleum infrastructure.

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## **Host Nation Support**

Japan provides host nation support to share the U.S. Government's burden of stationing U.S. Forces in Japan. Direct host nation support is approximately 9 percent of the Japan Defense Agency budget. Planning, programming, and budgeting for host nation funding is similar to the MILCON process. As with MILCON, the process takes more than five years from the time that a proposed construction project is submitted for consideration until the actual funding and award of a construction contract.

## **Japanese Facilities Improvement Program (JFIP)**

JFIP is a government of Japan initiative, which started in 1979 to ease the financial burden of stationing U.S. Forces in Japan. The program reduces U.S. Government cost to improve the quality of life and military posture. Approximately 21 percent of the government of Japan host nation support provided to the U.S. Forces in Japan is allocated to JFIP.

The program has funded more than \$14.5 billion in new facilities. However, use of JFIP funds for bulk fuel storage and delivery system infrastructure is limited by many factors. Funding is voluntary and is not protected by any formal agreements (for example, Status of Forces Agreement, or the Small Measures Agreement). The U.S. Government is responsible for maintaining the facilities. Most importantly, JFIP funds may not be used to construct facilities viewed by the government of Japan as offensive or warfighting in nature. Thus, bulk fuel storage and delivery system infrastructure projects perceived to increase warfighting capacity may not be funded through JFIP.

## **Japanese Relocation Funding Process**

The Japanese relocation funding process is another source of host nation support, separate and distinct from JFIP. Host nation funded relocation projects are quid pro quo, that is, the giving or receiving of something in exchange for something else. The relocation program is also a government of Japan initiative and funding is voluntary and is not protected by any formal agreements or completion guarantees.

The relocation alternative should be considered and pursued in conjunction with the use of new MILCON funding for proposed construction projects, given the significant dollar amounts associated with MILCON funding. The relocation process requires municipal approvals at both the losing and gaining locations. Those approvals can be highly speculative. Therefore, an alternative funding source, such as MILCON, also needs to be pursued so that if the host nation relocation alternative does not materialize, then the proposed construction project can be acquired in a timely manner using alternative funding.

## Bulk Fuel Storage and Delivery Systems Infrastructure MILCON Projects in Japan

The Table below lists DLA-approved bulk fuel storage and delivery systems infrastructure MILCON projects proposed for FYs 2001 through 2003 in Japan.

DLA Approved MILCON Projects in Japan (\$ in millions)			
FY	Location	Project	Amount
01	Misawa AFB	Construct 2, 100 mbbl* tanks	\$26.4
01	Iwakuni MCAS	Construct 2, 100 mbbl* tanks	22.4
02	Yokota AFB	Construct 1, 100 mbbl* tank	14.0
03	Yokota AFB	Construct 2, 100 mbbl* tanks	<u>25.0</u>
<b>Total</b>			<b>\$87.8</b>

\*mbbl = 1,000 barrels = 42,000 gallons

We reviewed the DD Form 1391, Military Construction Project Data, and supporting documentation for each of the four projects listed in the table. During our limited review of the four projects, we noted that all host nation funding alternatives used to satisfy the requirement were not considered. Each DD Form 1391 contained a statement that the project was ineligible for the JFIP funding because the project would add to the fuel storage capacity at the activity submitting the project. However, the DD Forms 1391 for the four projects did not mention consideration of the Japanese relocation funding process when evaluating host nation funding alternatives. A discussion with United States Forces Japan personnel responsible for evaluating the use of host nation funding stated that the relocation funding process was considered for each of the four projects. However, documentation was not prepared to support the evaluation of the relocation funding process as a viable alternative for each of the four projects.

### Summary

DLA has approved approximately \$107 million in MILCON projects to construct bulk fuel storage tanks at Misawa Air Force Base, Yokota Air Force Base, and Iwakuni Marine Corps Air Station. The Service Components and United States Forces Japan did not document that the use of the host nation relocation program was considered. However, those projects are no longer viable candidates for the host nation relocation funding process because of the lengthy approval process. The supporting economic analysis for any overseas MILCON project should clearly demonstrate that host nation funding has been considered and pursued to reasonable extents.

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## Management Comments on the Finding

The Commander in Chief, U.S. Pacific Command stated that he had reviewed the draft report and concurred with the finding.

## Recommendation, Management Comments, and Audit Response

**We recommend that the Commander in Chief, U.S. Pacific Command; the Commander, United States Forces Japan; and the applicable Service Components establish policy to require that future military construction projects in Japan consider all funding options and appropriately document the process in the project files.**

**Management Comments.** The U.S. Pacific Command did not address the recommendation in its formal response, but provided the following additional comments to further clarify its position.

Management concurs with the finding and recommendation. Corrective action will be to establish a policy to require that all future military construction projects in Japan consider all funding options and appropriately document the process in project files. Specifically, USCINCPACINST 4020.5R, CH 4, paragraph 7 will be revised to direct proponents to fully document, in a formal statement, all attempts to secure host-nation support for a project through all available host-nation support mechanisms (for Japan that would include the Facilities Improvement Program and the Relocation Program) and document the outcome of attempts at securing host-nation support. The USCINCPACINST 4020.5R will require that should attempts fail, documented statements must clearly demonstrate why support was unavailable, impractical, unfeasible or uneconomical. Estimated completion date is June 2001.

**Audit Response.** The applicable Service Components are now required to submit formal documentation of attempts to obtain host-nation support for military construction projects in the Pacific to the U.S. Pacific Command for review and validation. Therefore, we consider the additional comments from the U.S. Pacific Command as fully responsive to the intent of the recommendation and no additional comments are required.

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## Appendix A. Audit Process

### Scope

We reviewed DoD guidance and made on-site visits to assess the implementation of the guidance. We reviewed documentation used to support current MILCON projects to construct bulk fuel storage tanks at Yokota AFB, Misawa AFB and Iwakuni MCAS. Additionally, we reviewed the methods used to prepare supporting documentation for MILCON project requests.

**DoD-Wide Corporate Level Government Performance and Results Act Coverage.** In response to the Government Performance and Results Act, the Secretary of Defense annually establishes DoD-wide corporate level goals, subordinate performance goals, and performance measures. This report pertains to the achievement of the following goal, subordinate goal, and performance measure:

**FY 2000 DoD Corporate Level Goal:** Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure. **(00-DoD-2).** **FY 2000 Subordinate Performance Goal 2.3:** Streamline the DoD infrastructure by redesigning the Department's support structure and pursuing business practice reforms. **(00-DoD-2.3).** **FY 2000 Performance Measure 2.3.1:** Percentage of the DoD Budget Spent on Infrastructure. **(00-DoD-2.3.1).**

**General Accounting Office High-Risk Area.** The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the Defense Infrastructure high-risk area.

### Methodology

**Audit Type, Dates, and Standards.** This economy and efficiency audit was performed from June 1999 through January 2000, in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included tests of management controls considered necessary. We did not use computer-processed data to perform this audit.

**Contacts During the Audit.** We visited or contacted individuals and organizations within DoD. Further details are available on request.

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## **Management Control Program**

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

**Scope of Review of the Management Control Program.** We reviewed the adequacy of management controls over bulk fuel storage MILCON projects. Specifically, we reviewed management controls over the review and validation process for bulk fuel storage MILCON project requirements.

**Adequacy of Management Controls.** We identified a material management control weakness for bulk fuel storage MILCON projects in Japan. The U.S. Pacific Command management controls were not adequate to ensure that planners and approving officials fully considered and pursued all funding alternatives, especially all forms of host nation support. The recommendation, if implemented will require the documentation of the funding pursuit process. A copy of the report will be provided to the senior official responsible for management controls in the office of the U.S. Pacific Command.

## **Prior Coverage**

No prior coverage has been conducted on bulk fuel storage infrastructure in Japan during the last 5 years.

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## **Appendix B. Report Distribution**

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Deputy Comptroller (Program/Budget)  
Deputy Under Secretary of Defense (Installations)

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Auditor General, Department of the Army  
Director, Army Petroleum Center

### **Department of the Navy**

Naval Inspector General  
Auditor General, Department of the Navy

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Department of the Air Force

### **Unified Commands**

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Commander, United States Forces Japan

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Senate Committee on Armed Services  
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House Committee on Armed Services  
House Committee on Government Reform  
House Subcommittee on Government Management, Information, and Technology,  
Committee on Government Reform  
House Subcommittee on National Security, Veterans Affairs, and International Relations,  
Committee on Government Reform

## U.S. Pacific Command Comments



COMMANDER IN CHIEF, U.S. PACIFIC COMMAND  
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J42  
4140  
31 August, 2000

### MEMORANDUM

TO: Inspector General  
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Arlington, VA 22202-2885

Subj: DRAFT AUDIT REPORT ON BULK FUEL STORAGE AND DELIVERY  
SYSTEMS INFRASTRUCTURE MILITARY CONSTRUCTION REQUIREMENTS  
FOR JAPAN (PROJECT NO: D1999-D000CG-0088.004)

1. Have reviewed subject draft audit. Concur with finding.
2. HQ USCINCPAC Point of Contact Lt Col D. M. King DSN 477-1168.

A handwritten signature in cursive script, appearing to read "Gail R. Duke".

GAIL R. DUKE  
Colonel, U.S. Air Force  
Acting Director, Logistics, Engineering  
And Security Assistance

## **Audit Team Members**

The Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report. Personnel of the Office of the Inspector, DoD, who contributed to the report are listed below.

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